

EXH. 12

**IN THE UNITED STATES DISTRICT COURT  
FOR THE EASTERN DISTRICT OF TEXAS  
TYLER DIVISION**

to FED.R.CIV.P 12(b)(6). Portions of the amended complaint are set out below as representative of the dispute:

Without a license or permission from USEI, Defendants have infringed and continue to infringe one or more claims of the [respective Patent], directly, contributorily, and/or by inducement, by importing, making, using, offering for sale, and/or selling products and devices which embody the patented invention, including, without limitation, one or more of the Accused Products, in violation of 35 U.S.C. § 271.

Defendants directly contribute and induce infringement through supplying infringing systems and components to Defendants' customers. Defendants' customers who purchase systems and components thereof and operate such systems and components thereof in accordance with Defendants' instructions directly infringe one or more claims of the [respective Patent], in violation of 35 U.S.C. § 271.

.....

Defendants have had actual or constructive knowledge of the [respective Patent], yet continue to infringe said patent. The infringement of the [respective Patent] by Defendants is willful and deliberate, entitling USEI to increased damages under 35 U.S.C. § 284 and to attorneys' fees and costs incurred in prosecuting this action under 35 U.S.C. § 285.

AMENDED COMPLAINT at 4–8.

### LEGAL STANDARD

Motions to dismiss for failure to state a claim are governed by regional circuit law. *In re Bill of Lading Transmission and Processing System Patent Litigation*, 681 F.3d 1323, 1331 (Fed. Cir. 2012) (citing *McZeal v. Sprint Nextel Corp.*, 501 F.3d 1354, 1355-56 (Fed.Cir. 2007)). “The central issue is whether, in the light most favorable to the plaintiff, the complaint states a valid claim for relief.” *McZeal*, 501 F.3d at 1356 (internal quotations omitted); *Hershey v. Energy Transfer Partners, L.P.*, 610 F.3d 239, 243 (5th Cir. 2010). Under Federal Rule of Civil Procedure 8 (“Rule 8”), a complaint must contain “a short and plain statement of the claim showing that the pleader is entitled to relief, in order to give the defendant fair notice of what the . . . claim is and the grounds upon which it rests.” *Bell Atl. Corp. v. Twombly*, 550 U.S 544, 545

(2007) (interpreting Rule 8); *see also Ashcroft v. Iqbal*, 556 U.S. 662, 684-685, 129 S. Ct. 1937, 1949-50, 1953 (2009) (applying *Twombly* generally to civil actions pleaded under Rule 8). “[D]etailed factual allegations” are not required. *Iqbal*, 556 U.S. 662 at 678 (quoting *Twombly*, 550 U.S. at 555). Nevertheless, a complaint must allege “sufficient factual matter, accepted as true, to ‘state a claim that is plausible on its face.’” *Id.* (quoting *Twombly*, 550 U.S. at 570). “A claim has facial plausibility when the pleaded factual content allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged.” *Id.* (citing *Twombly*, 550 U.S. at 556). This determination is a “context-specific task that requires the reviewing court to draw on its judicial experience and common sense.” *Id.* at 1950.

In the patent context, “a patentee need only plead facts sufficient to place the alleged infringer on notice as to what he must defend.” *McZeal*, 501 F.3d at 1357 (citing *Twombly*, 550 U.S. at 565 n.10). Further, the Federal Circuit has definitively held that whether a complaint adequately pleads direct infringement is to be measured by the specificity required by Form 18. *Bill of Lading*, 681 F.3d at 1334; *see also* FED. R. CIV. P. 84 (“The forms in the Appendix suffice under these rules and illustrate the simplicity and brevity that these rules contemplate.”); *Twombly*, 550 U.S. at 569 n.14 (acknowledging that altering the Federal Rules of Civil Procedure cannot be accomplished by judicial interpretation). Form 18 provides a sample complaint for patent infringement and does not require extensive factual pleading:

(Caption—See Form 1.)

1. (Statement of Jurisdiction--See Form 7.)

2. On *date*, United States Letters Patent No. \_\_\_\_\_ were issued to the plaintiff for an invention in an *electric motor*. The plaintiff owned the patent throughout the period of the defendant's infringing acts and still owns the patent.

3. The defendant has infringed and is still infringing the Letters Patent by making, selling, and using *electric motors* that embody the patented invention, and the defendant will continue to do so unless enjoined by this court.
4. The plaintiff has complied with the statutory requirement of placing a notice of the Letters Patent on all *electric motors* it manufactures and sells and has given the defendant written notice of the infringement.

Therefore, the plaintiff demands:

- (a) a preliminary and final injunction against the continuing infringement;
- (b) an accounting for damages; and
- (c) interest and costs.

(Date and sign—See Form 2.)

FED. R. CIV. P. Form 18 (2007); *see also Bill of Lading*, 681 F.3d at 1334 (describing the requirements of Form 18). Thus, to the extent that *Twombly* and its progeny conflict with Form 18 and establish different pleading requirements, “the Forms control.” *Id.* at 1336-37.

However, Form 18 applies only to direct infringement claims and thus cannot measure the sufficiency of indirect infringement or willful infringement pleadings. *Id.* Thus, claims for indirect infringement or willful infringement must be judged by the pleading standards articulated in *Twombly* and *Iqbal*. *Id.* (“[B]ecause Form 18 addresses only direct infringement, we must look to Supreme Court precedent for guidance regarding the pleading requirements for claims of indirect infringement”).

## DISCUSSION

Defendants maintain that USEI’s amended complaint is insufficient insofar as it addresses allegations of contributory infringement and willful infringement. *See* MOTION AT 1.

### A. Contributory Infringement Allegations

“Contributory infringement occurs if a party sells or offers to sell, a material or apparatus for use in practicing a patented process, and that ‘material or apparatus’ is material to practicing

the invention, has no substantial non-infringing uses, and is known by the party ‘to be especially made or especially adapted for use in an infringement of such patent.’” *Bill of Lading*, 681 F.3d at 1337 (quoting 35 U.S.C. § 271(c)). Thus, to state a claim for contributory infringement, USEI must, among other things: (1) identify the “material or apparatus for use in practicing [the] patented process” that is sold or offered for sale by Defendants and (2) “plead facts that allow an inference that [these] components . . . have no substantial non-infringing uses.” *Id.* (citations omitted).

While USEI’s complaint identifies Defendants’ customers as direct infringers, the complaint fails to go beyond that to put Defendants on notice of a claim of contributory infringement. Particularly, the complaint is devoid of any allegation from which the Court can plausibly infer that any components being sold have “no substantial non-infringing uses.” USEI contends that such an inference can be made from its allegations that the accused products “embody the patented invention” by “employing the patented Ethernet technology,” and Defendants’ “customers who purchase systems and components thereof and operate such systems and components thereof in accordance with [Defendants’] instructions directly infringe one or more claims.” However, those allegations by USEI do not alone create a reasonable inference that the accused components have no substantial non-infringing use. In fact, USEI’s allegation that customers infringe when they use operating systems and components in accordance with Defendants’ instructions actually creates an inference that they might otherwise be used in a non-infringing manner. Accordingly, the Court finds that USEI’s contributory infringement allegations fail to state a claim.

## **B. Willful Infringement Allegations**

A plaintiff need only a good faith basis for alleging willful infringement. *In re Seagate Technology, LLC*, 497 F.3d 1360, 1374 (Fed. Cir. 2007). To succeed on a cause of action for willful infringement a party must show an “objectively high likelihood that its actions constituted infringement” and that this “objectively-defined risk was ... either known or so obvious that it should have been known to the accused infringer.” *Id.* at 1371. Accordingly, at the pleading stage, a plaintiff alleging willful infringement should provide enough facts that, when taken as true, show objective recklessness<sup>1</sup> of the infringement risk.

Here, with regard to willful infringement USEI makes only the following allegations: “Defendants have had actual or constructive knowledge of the [Patent], yet continue to infringe said patent” and “[t]he infringement of the [Patent] by Defendants is willful and deliberate.” Again, USEI’s allegations fail to state any facts that could be taken as true to recite a relief-worthy claim for willful infringement. *Iqbal*, 556 U.S. 662 at 678. As it stands, USEI’s allegation is devoid of any facts that create an inference of Defendants’ objective recklessness; it only makes the conclusory assertion that Defendants had knowledge of the asserted patents and continued to infringe. Without more, USEI’s allegation of willful infringement fails to provide adequate notice.

## **D. Leave to Amend the Complaint**

USEI moves the Court for leave to amend its pleadings to correct any deficiencies in the First Amended Complaint. RESPONSE at 8. The Court hereby **GRANTS** USEI leave to amend its complaint to supplement its allegations of contributory infringement and willful infringement.

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<sup>1</sup> By using the term “objective recklessness” it is the Court’s intent to encompass the objective and subjective requirements of a willfulness inquiry.

## CONCLUSION

Accordingly, the Court **RECOMMENDS** Defendants' Motion to Dismiss Claims of Contributory and Willful Infringement be **GRANTED**. The Court further **GRANTS** USEI leave to amend its complaint within fourteen days of the date of this Order to comply with Rule 8 as described herein.

Within fourteen (14) days after receipt of the magistrate judge's report, any party may serve and file written objections to the findings and recommendations contained in this report. A party's failure to file written objections to the findings, conclusions and recommendations contained in this Report within fourteen days after being served with a copy shall bar that party from de novo review by the district judge of those findings, conclusions and recommendations and, except on grounds of plain error, from appellate review of unobjected-to factual findings and legal conclusions accepted and adopted by the district court. *Douglass v. United States Auto. Ass'n*, 79 F.3d 1415, 1430 (5th Cir. 1996) (en banc).

**So ORDERED and SIGNED this 2nd day of April, 2013.**

  
JOHN D. LOVE  
UNITED STATES MAGISTRATE JUDGE